

What the Subprime Lending Crisis Means to You



Based upon media reports, the United States is facing the most serious economic crisis since the savings and loan debacle of the 1980s, and perhaps the worst housing crisis since the Great Depression.

A U.S. Conference of Mayors' report estimates 1.4 million homeowners will face foreclosures in 2008, walking away from houses totaling \$316 billion in value. Some of the nation's largest mortgage lenders find themselves in financial turmoil, as well.

For the past several years, we've enjoyed low interest rates and rapidly escalating values in some regions of the country. Consequently some lenders and homebuyers gambled that home values would continue to soar. In the present crisis, with more stringent loan standards, fewer people are able to purchase homes at current market values.

Many of the 8,000 banks across the nation in more than 25,000 locations will review home mortgage documents of current homeowners, provide information to those in the market for their first houses, and help those looking to purchase new homes or refinance existing mortgages.

There are several steps you can take to protect your home. Educate yourself on your credit score. In a report from John Ulzheimer, head of Credit.com Education Services based in Atlanta, individuals with credit scores between 700 and 850 are considered the best credit risks and will receive the lowest interest rates. Consumers who have scores between 620 and 699 will usually get a loan, but not at the best interest rate. Those with credit scores below 500 usually fall into the subprime category and often fall victim to "predatory" home loans. These loans could involve misleading sales tactics with little regard for whether the borrower can actually repay the loan.

Be sure you understand the difference between an adjustable rate mortgage (ARM) and a fixed interest rate. With an ARM, your interest rate will fall or climb based on current interest rates. While you may experience a very low interest rate for a certain period of time, when interest rates soar, so will your mortgage payment. A fixed interest rate,

on the other hand, will last over the life of your loan without any unexpected payment increases down the road.

According to James P. Gaines, a research economist with the Real Estate Center at Texas A&M University, 65 percent of occupied homes in the United States have a mortgage. Of those mortgages, 75 percent have fixed interest rates, and 86 percent of those mortgages are considered "prime," which is the interest rate available to homebuyers with the best credit. However, of the estimated 14 percent of mortgages that are considered subprime, more than half of those are ARMs.

Gain a full understanding of your mortgage payment before you sign the papers. In order to qualify you for a loan, some lenders might exclude the taxes and insurance premiums to give you a lower monthly payment. While that approach may appear less expensive, keep in mind that it may be more palatable to stretch your insurance and tax payments over a 12-month period and roll them into your monthly mortgage, than it would be to try to find the money to pay in full when the tax man cometh and your homeowners insurance policy is due.

We would all be well-served to remember that the primary purpose of a home is for shelter—not for investment. However history has shown that, over the long-term, home ownership is a cornerstone of sound financial planning.

If you have any questions concerning your home mortgage, visit your local banker and talk to a common sense lender who will help find a mortgage that is right for you.

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